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## **Hungary**

## **Tobacco and Products**

## **Annual**

## **2002**

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**Report Highlights: Hungary's tobacco sector is coping with slowly decreasing tobacco and cigarette production. Domestic consumption is declining due to demographics and changing consumer attitudes. U.S. sales are strong for both unmanufactured tobacco and for cigarettes.**

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Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Vienna [AU1], HU

## **Production**

Tobacco area and crop size decreased in 2001 as the result of dry weather and higher quality requirements set by curing companies. The government of Hungary is trying to portray the largest possible 'production base' for tobacco prior to EU accession. At the same time, industry is more interested in culling out marginal producers and improving quality.

About 55 percent of tobacco area is devoted to Virginia and 45-50 percent to Burley types. The old domestic varieties, mainly Dark Sun and Air Cured tobacco, are rarely seen anymore (and are no longer listed in the PS&D tables below). Modern seedling propagation methods, supported by both the government and industry, have improved planting results, led to a more homogenous crop, and also helped the spread of preferred varieties.

## **Consumption**

Domestic tobacco production supplies about one third of the cigarette industry's total demand. Along with slightly decreasing cigarette production, the importance of exports to Hungarian tobacco is increasing, especially to neighboring countries.

The Hungarian government approved a new anti-smoking law in 1999. Retail shops and supermarkets have taken steps to prevent those under 18 from buying cigarettes and generally cigarettes are provided only by cashiers. Tobacco product advertisement have been banned from the print media since June 2001 and billboard advertisements since January 2002.

## **Production Policy**

The Hungarian government provides tobacco producers with several kinds of production subsidies including: support for irrigation, contributions to (genetic) variety research, and a write off on part of the tax on diesel oil used for tobacco drying. In addition, farms may apply for investment subsidies through competitive bidding. The government paid HUF 200 million (USD 710,000) in quality premiums for tobacco produced in 2001. This was increased to HUF 300 million (USD 1.1 million) for 2002.

The tobacco curing industry, under a contract with the government, grants extension and laboratory services to farmers, contributes to the purchases of chemicals and tobacco transportation, and pre-finances crop insurance at the beginning of the production season.

## **Trade**

### **General**

Fluctuations in Hungary's tobacco imports reflect international prices and re-exports rather than simply annual cigarette production. The main countries of origin are generally the same year to year (the United States, Turkey and some African countries). The value of the unmanufactured tobacco imports was USD 32.5 million and exports were USD 7.3 million in 2001.

Export Trade Matrix			
Country	Hungary		
Commodity	Tobacco, Unmfg., Total		
Time period	CY 2000	Units:	MT
Exports for:			1
U.S.		U.S.	
Others		Others	
Great Britain	173		
Romania	332		
Belgium	251		
Switzerland	92		
Total for Others	848		0
Others not Listed	603		
Grand Total	1451		0

Import Trade Matrix			
Country	Hungary		
Commodity	Tobacco, Unmfg., Total		
Time period	CY 2000	Units:	MT
Imports for:			1
U.S.	1024	U.S.	
Others		Others	
Turkey	1229		
Malawi	1228		
Greece	916		
Zimbabwe	522		
Total for Others	3895		0
Others not Listed	3248		
Grand Total	8167		0

## Tariff Changes (Tobacco)

MFN tariffs for leaf tobacco remained unchanged for 2002: 51.2 percent (the tariff for oriental tobacco is 32 percent). The total Tariff Rate Quota (TRQ) of 6,528 MT also did not change :

2401 10 Leaf tobaccos (excluding 2401 1060 and 2401 1090) - 47 percent

2401 10 9000 - 8 percent

2401 20 Tobacco w/o stem (excluding 2401 2060 and 2401 2090) - 47 percent

## Cigarettes

### General

Cigarette production is slowly decreasing along with consumption. However, industry representatives tend to deny this, saying that the black market of cigarettes (accounting for an estimated 5-10 percent of production) make official consumption calculations inaccurate.

In spite of stagnating production, the industry has invested a lot into quality improvement. There has also been a reduction in the number of non-filtered brands.

Tobacco companies in Hungary reduced cigarette exports in 1999-2000. The main reasons for this are an increase in tariffs and non-tariff costs in target countries (primarily Russia, Ukraine, and other FSU countries) and gray marketing and illegal re-imports of exported Hungarian cigarettes. The black market accounts for 10-15 percent of total consumption according to trade estimates. Imports of cigarettes is declining and now accounts for about 300 bn pieces annually, mainly from Germany, the U.K., and the United States. In 2002, the value of Hungarian cigarette exports was USD 1.6 million and imports USD 4.8 million.

The excise tax on tobacco products is 40 percent in Hungary and in a few years this tax level must be increased to the EU's 57 percent average. The excise tax was increased by 13 percent as of January, 2002.

## Tariff Changes (Cigarette)

MFN import tariff rates on processed tobacco products did not change for 2001. Tariff rates are as follows:

Tariff number	Commodity	Tariff, percent, ad val.
2402.10 .000	Cigar, all kinds	48
2402.20 .004	Cigarettes	57.6
2402.90 .001	Other	57.6
2403.10 .011	Pipe tobacco	57.6
2403.10 .996	Other (&above 250g)	57.6

2403.10 .003	Homogenized regained tob.	57.6
2403.99 .007	Other (tob. derivates)	57.6

### Marketing

Cigarette producers have taken over the wholesale and distribution business from independents during the last year. The main reasons for this were law suits and false bankruptcy cases in this “high tax” wholesale sector. Producers also became interested in keeping more direct contacts with retailers and consumers, especially since several traditional tobacco advertisement methods have been banned.

PSD Table						
Country	Hungary					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Filter Production	21800	20100	21800	19700	0	18200
Non-Filter Production	1200	1100	1200	1100	0	1000
TOTAL Production	23000	21200	23000	20800	0	19200
Imports	500	320	500	386	0	300
TOTAL SUPPLY	23500	21520	23500	21186	0	19500
Exports	3500	38	3500	269	0	400
Domestic Consumption	20000	21482	20000	20917	0	19100
TOTAL DISTRIBUTION	23500	21520	23500	21186	0	19500

PSD Table						
Country	Hungary					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	7000	5849	7000	5100	0	6000
Beginning Stocks	13100	11,500	14000	8900	14900	7600
Farm Sales Weight Prod	15000	12800	15000	10900	0	12140
Dry Weight Production	11800	10000	11800	8900	0	10000
U.S. Leaf Imports	2600	2600	2600	3100	0	3000
Other Foreign Imports	15400	5600	15400	7200	0	7000
TOTAL Imports	18000	8200	18000	10300	0	10000
TOTAL SUPPLY	42900	29700	43800	28100	14900	27600

Exports	2000	2000	2000	2000	0	1800
Dom. Leaf Consumption	10000	9000	10000	8600	0	8600
U.S. Leaf Dom. Consum.	1800	1800	1800	1700	0	1700
Other Foreign Consump.	15100	8000	15100	8200	0	8000
TOTAL Dom. Consumption	26900	18800	26900	18500	0	18300
TOTAL Disappearance	28900	20800	28900	20500	0	20100
Ending Stocks	14000	8900	14900	7600	0	7500
TOTAL DISTRIBUTION	42900	29700	43800	28100	0	27600

PSD Table						
Country	Hungary					
Commodity	Tobacco, Unmfg., Flue Cured				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	3500	3500	0	4000	0	4200
Beginning Stocks	2730	2730	2590	1400	0	1400
Farm Sales Weight Prod	5900	6800	0	5200	0	5500
Dry Weight Production	4700	5500	0	4900	0	5100
U.S. Leaf Imports	1300	1300	0	1300	0	1400
Other Foreign Imports	5900	3000	0	5000	0	4700
TOTAL Imports	7200	4300	0	6300	0	6100
TOTAL SUPPLY	14630	12530	2590	12600	0	12600
Exports	1200	1200	0	1200	0	1000
Dom. Leaf Consumption	2540	2700	0	3000	0	3000
U.S. Leaf Dom. Consum.	1200	1230	0	1000	0	1100
Other Foreign Consump.	7100	6000	0	6000	0	5600
TOTAL Dom. Consumption	10840	9930	0	10000	0	9700
TOTAL Disappearance	12040	11130	0	11200	0	10700
Ending Stocks	2590	1400	0	1400	0	1900
TOTAL DISTRIBUTION	14630	12530	0	12600	0	12600